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SUBJECT: SINGAPORE POSITIONS TO BE CARBON TRADING CENTER

¶1. (U) SUMMARY: Singapore hosted an October conference on emissions trading and carbon finance, highlighting the role Asia, and potentially Singapore, can play as a center for carbon trading. Speakers at the Carbon Forum Asia conference voiced concerns about the lack of carbon credit supply and acknowledged the tremendous influence that passage of U.S. cap-and-trade legislation will likely have on the size and direction of the carbon market, noting that much also depends on the outcome of the climate talks in Copenhagen. Singapore aims to capitalize on its position as a financial services and commodities trading hub to become a carbon trading center. Progress to date has been slow, but the Singapore Mercantile Exchange (SMX) may launch carbon product trading in the second half of 2010. Even as the market continues to expand, doubts remain among energy experts that carbon trading will actually lead to emissions reduction. End Summary.

## Carbon Forum Asia

¶2. (U) Singapore hosted the fourth annual Carbon Forum Asia October 26-27. The International Emissions Trading Association (IETA) helped organize the Forum with support from the Sustainable Energy Association of Singapore (SEAS), the Economic Development Board, and the National Environment Agency, among others. The conference brought in speakers from the private and public sector to discuss a range of topics, such as: changes in the global carbon market; opportunities for growth in Asia; the implications of the upcoming climate change talks in Copenhagen; and the political situation surrounding carbon trading in the United States. Exhibitors at the concurrent trade fair ranged from multinational corporations like Bunge and Sumitomo Corporation to investment banks and representatives from the United Nations Framework Convention on Climate Change (UNFCCC) secretariat. The 8th UNFCCC Clean Development Mechanism (CDM) Designated National Authorities (DNA) Forum followed Carbon Forum Asia on October 28.

¶3. (U) During a panel regarding the global carbon market and the impact on the Asia-Pacific region, speakers highlighted the current challenges created by political uncertainty leading into climate talks in Copenhagen and concerns about carbon credit standards that result in low carbon credit supply. Panelists predicted that the future source of most carbon projects will likely be developing countries in Asia, while demand for credits will come from the United States, EU, Canada, Japan and Australia. One speaker cautioned against boosting supply by moving too rapidly to using voluntary carbon credit standards, because credit buyers will demand a level of quality, transparency and verifiability that voluntary credit standards may not ensure. However, more stringent standards reduce the supply of offsets available for countries to meet their emissions goals, he added. Independent groups like The Carbon Rating Agency pitched their services and advocated for a global trading system that uses regulated and voluntary standards that can be independently verified and enforced.

¶4. (U) Discussion on the quality and supply of carbon credits

continued in a panel focused on the U.S. political environment. World Resources Institute provided an overview of the U.S. House of Representatives bill (H.R. 2454) and Senate cap-and-trade bill, noting that each sets different limits on the proportion of international offsets that can be used in the United States. One panelist estimated that the 50 U.S. states would need to purchase $15 billion in international offsets to help close the gap between their shares of emissions caps under H.R. 2454 by 2012. Passage of U.S. legislation could lead to a huge increase in the overall carbon trading market and price increases for credits from offset projects in Asia, said Philippe Rosier, the President of carbon-trading firm Orbeo. There is only an up side for the price of offsets going forward, he continued.

¶5. (U) Margret Kim of the California Air Resources Board provided an overview of California's CDM projects in Asia, and echoed concerns about the lack of carbon credit supplies. Kim emphasized that the focus for developing a global carbon market should be on transparency, and she suggested that U.S. federal legislation should not be designed to assume that international credits are not as credible or valuable as domestic credits. Initially, it may be necessary to consider limited project-based voluntary credits in order to meet emissions goals. CDM projects in least developed countries could help fill a short-term gap in offset supplies and have the added benefit of local capacity building, Kim continued. Eventually, such project-based voluntary credits could be phased out for sectoral carbon crediting (e.g., credits for the cement sector).

## Building Singapore's Carbon Market

¶6. (SBU) Singapore aims to establish itself as a carbon-trading



center, but Singapore's carbon market is unlikely to take off before 2011, Kavita Gandhi Executive Director at SEAS told Econoff. Singapore does not yet have a carbon exchange or a carbon trading regulator. However, Singapore is home to major banks like HSBC and Standard Chartered, which finance renewable energy projects, and CDM project managers like EcoSecurities. Singapore is already a major financial services and commodities trading hub and is geographically near to a range of CDM projects in Asia, Ghandi added. Hong Kong would be another likely contender but it is no closer to having a working exchange, she asserted. Reports indicate that to date only one Singapore environment solutions provider has been granted international approval to engage in carbon trading, but six other local firms have since applied. Carbon trading by local firms is currently done through Europe, Ghandi said.

## SMX May Trade Carbon Products in 2010

¶7. (U) Press reports in late October stated that the Singapore Mercantile Exchange (SMX) may launch carbon product trading in the second half of 2010. The SMX was established in Singapore in July 2008 as an international commodity derivatives exchange for trading in various commodities, including options and futures contracts on agricultural commodities, base and precious metals, currencies and commodity indices. Reports stated that SMX would trade seven carbon products initially, but details about the products were not released. The SMX would compete with the European Climate Exchange (ECX), which dominates the European and international carbon market and trades EU Allowances (EUAs) and Certified Emissions Reductions (CERs).

## Mixed Outlook for Carbon Trading Results

¶8. (SBU) Local views differ on how effectively the carbon market will actually reduce carbon emissions. Carbon credits can help encourage investment in renewable energy projects that can be three times as expensive as traditional fossil fuel projects, William I.
¶Y. Bunn, Managing Director at Asia Renewables Pte Ltd, said during a recent seminar on renewable energy projects in Southeast Asia. Bunn said that he supports carbon markets but acknowledged that the

market is not perfect. There is no real "punishment" in place if companies or countries miss their emissions targets, and they can just "loosen their belts" by relaxing targets they do not reach. SEAS's Ghandi acknowledged that at this stage, the secondary carbon market is actually growing faster than the primary market. Dr. Elspeth Thomson, a senior fellow at the Energy Studies Institute in Singapore, expressed her concerns about the potential for financial market problems caused by "sub-prime" carbon credits. Thomson said she was skeptical about how emissions reductions would be accounted for, especially as trading in the primary and secondary markets expand, and she suggested that there was some irony in the enthusiasm about carbon trading following the financial crisis caused by sub-prime mortgages. In her view, there is the potential for trading of poorly regulated carbon securities to go "very wrong" as it did with sub-prime mortgage-backed securities.

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